



## NOTICE OF MEETING

Councillors: Please be advised that the next meeting of the

### **KULIN SHIRE COUNCIL**

Audit & Risk Committee Meeting

**will be held on  
Wednesday 16 June 2021**

A handwritten signature in black ink, appearing to read 'Garrick Yandle', is positioned above a horizontal line.

Garrick Yandle  
Chief Executive Officer  
11 June 2021

#### **DISCLAIMER**

The advice and information contained herein is given by and to the Council without liability or responsibility for its accuracy. Before placing any reliance on this advice or information, a written inquiry should be made to the Council giving entire reasons for seeking the advice or information and how it is proposed to be used.

Please note this agenda contains recommendations, which have not yet been adopted by Council.

## **ORDER OF BUSINESS**

- 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS)**
- 2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE**
- 3 PUBLIC QUESTION TIME**
- 4 APPLICATIONS FOR LEAVE OF ABSENCE**
- 5 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**
  - 5.1 Audit & Risk Committee Meeting Minutes – 21 March 2021
- 6 MATTERS REQUIRING DECISION**
  - 6.1 Local Government (Audit) Regulations 1996 - Regulation 17 Review
- 7 ELECTED MEMBERS MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**
- 8 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING**
- 9 INFORMATION BULLETIN ITEMS**
- 10 DATE AND TIME OF NEXT MEETING**
- 11 CLOSURE OF MEETING**

## 6.1 Local Government (Audit) Regulations 1996 - Regulation 17 Review

**RESPONSIBLE OFFICER:** CEO  
**FILE REFERENCE:** 04.04  
**AUTHOR:** CEO  
**STRATEGIC REFERENCE/S:** Corporate Business Plan, Civic Leadership 4.1.1 a; CEO KRA 3.3 Financial Management, 3.5 Integrated Planning  
**DISCLOSURE OF INTEREST:** Nil

### SUMMARY:

Shire of Kulin Audit and Risk Committee is required to undertake a review of the Council's risk profile by the 30 June 2021, on the basis of a report prepared by the CEO. It is intended that this report and attachment be the June Risk Report 2020. Attachment details risk items remaining which also in part appear in the Corporate Action Plan for completion. The Shire of Kulin CEO and DCEO report monthly compliance to the full Council focussing on general and accounting compliance. These compliance processes adopted since May 2016, collectively address the Audit Regulation 17 framework for dealing with risk and reporting compliance.

### BACKGROUND & COMMENT:

The Audit and Risk Committee is required to meet to assess compliance and risk. The Shire of Kulin nominally meets quarterly (including our Audit review and hook-up with Auditors) to consider strategic and operational risks including financial and non-financial systems, compliance with legislation, regulations, policies and known best practice. Recommendations are developed and agreed with management for follow-up to ensure that they are implemented as agreed.

A Risk Register prepared in June 2017, (adopted by the Audit and Risk Committee in June) has been the basis of the compliance work undertaken over the past 4 years. It should be noted that on-going items now appear where relevant in the Compliance Calendar listing and CAP report which managers use each month for the compliance reports to Council.

The Shire had already adopted a Risk Management Framework that includes matrixes that allows for the assessment of identified risk and again this was used to select priorities.

The adopted processes adopted provide a degree of certainty that risk and compliance matters are addressed.

### STATUTORY ENVIRONMENT:

The Local Government (Audit) Regulations 1996 require local government authorities to establish audit committees. The Department of Local Government amended the Audit Regulations inserting regulation 17, requiring the CEO to review and report on systems and procedures.

#### *Regulation 17 – CEO to review certain systems and procedures*

A new regulation 17 has been inserted and states as follows:

- 17 *CEO to review certain systems and procedures*
- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –*
- (a) *risk management; and*
- (b) *internal controls; and*
- (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

This report meets that requirement.

### POLICY IMPLICATIONS:

Since June 2016 significant improvements have been made to the risk profile. Council is already aware of these items as they flowed through into the monthly meeting process, namely;

- Development of a **Compliance Calendar**;
- Establishment of a **Compliance team** (CEO, DCEO, WM, ESO, SFO) – required to meet monthly after Council meetings to plan the compliance work;
- The ESO send out **compliance actions to each** staff member;
- CEO reports compliance each month (**Compliance Items 7.1**) in Council Agenda (**General and Accounting compliance**); This gives Council a degree of confidence that nothing is being overlooked, forgotten, avoided or misplaced when it comes to ensuring that programmes, projects, policy or legislative changes are being considered and actioned.
- **Delegation Exercised report** where all CEO/DCEO delegations exercised for the month are reported to Council.

An updated Policy Manual developed in June 2017, has assisted in management of actions and will ensure actions adopted by policy are included in the Compliance calendar. This is reviewed annually as well as on an as needs basis throughout the year.

#### **FINANCIAL IMPLICATIONS:**

Specific financial risks are addressed in the Risk Management Report.

#### **STRATEGIC IMPLICATIONS:**

The Department of Local Government Operational Guidelines 2013 relating to Audit Committees suggests;

*That a Council's internal control environment includes the following components:*

- *Structure of the organisation*
- *Culture of the organisation*
- *Knowledge, skills and experience of employees*
- *Processes employed by the organisation to conduct business.*

*That the Chief Executive Officer plays a key role in the establishment and development of an effective internal control environment, as it ultimately sets the operational tone of the Council, and should reflect the ethics, integrity and values espoused by the Council.*

*An effective and transparent internal control environment would focus on the following key areas:*

- *Integrity and ethical values*
- *Management's philosophy and operating style*
- *Organisation structure*
- *Performance measures*
- *Policies and procedures*
- *Human resources policy*
- *Internal Audit function*
- *The Audit Committee.*

The role of the Audit & Risk Committee is to govern the integrity of the entity's financial information, systems of internal control, and the legal and ethical conduct of management and the employees.

Internal Control actions implemented in June 2016 and undertaken on a regular basis since include;

#### **Integrity and Ethical Values**

- Code of Conduct now positioned in Policy.

#### **Organisational Structure**

- Administration
  - Senior Finance Officer
    - Upgrade of role to ensure adequate support for the DCEO and the finance function.
  - Trainee Finance Officer employed
    - Role provides book-keeping and administrative support within administration team.
- Community Services
  - Community Development Officer
    - Role upgraded to Community Services Manager reflective of staff reports as well as multiple roles within organisation.
  - CRC Trainee
    - Combines role of CRC, customer service and broader Shire administrative activities.
  - Key focus is to recruit additional staff member/s to assist with tourism, communications and events management.
- Works

- Technical Officer
  - Allow greater focus on Occupational Health and Safety plans and works road funding needs of the Shire.
- Camp Kulin
  - Organisational structure review commenced in 2019, due to significant turnover in staff, which restricted the output and services being delivered.
  - Due to financial sustainability challenges and COVID19, Camp Kulin operations were halted indefinitely in April 2020.

### **Performance Measures**

- CEO
  - Currently undertaking Integrated Planning and Reporting major review as per legislation requirements.
    - LTFP and AMP updated in late 2020.
    - Business and Community Workshops.
    - Council consultation.
    - Updated documents expected late 2021.
  - Financial Management Review
    - Undertaken June 2021.
    - Review of financial management processes and procedures.
    - Discussed at Council Forum level and refined over the course of monthly Forums.

### **Policy and Procedures**

- Annual Review of Policy Manual to be presented for consideration each May.
- Administrative Procedures and Operational Guidelines (APOG) completed June 2017 and reviewed annually for consideration each May.

### **Human Resource Policy**

- Numerous HR procedures included in APOG.
- COVID-19 – Shut Down and Leave Parameters Memorandum
  - Issued to staff in March 2020.
  - Outlining processes undertaken to manage staff employment and welfare during COVID-19.
  - Not incorporated into a Procedure as this was subject to rapid change.

### **Annual Financial Audit**

Key findings from Auditor for 2019/20 Audit of Annual Financial Report.

“In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matter indicate significant adverse trend in the financial position of the Shire:
  - a. The Operating surplus ratio has been below the Department of Local Government, Sports and Cultural Industries standard for the past three years. The financial ratios are reported in Note 27 of the financial report.
- (ii) The following material matter indicating non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law was identified during the course of my audit:
  - a. The Shire has not reported the Asset Renewal Funding Ratio for 2019 and 2018 in the annual financial report as required by section 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as management considered the available information on planned capital renewals and required capital expenditure was not updated.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the asset consumption ratio and the asset renewal funding ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.”

Key recommendations of Auditor

INDEX OF FINDINGS	RATING		
	SIGNIFICANT	MODERATE	MINOR
1. Purchase Quotations		✓	
2. Employment Letters			✓
3. Purchase Order			✓

**KEY TO RATINGS**

The Ratings in this management letter are based on the audit team’s assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

**Significant**

Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.

**Moderate**

Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

**Minor**

Those findings that are not of primary concern but still warrant action being taken.

**DETAIL AND RESPONSE OF FINDINGS**

**1. Purchase Quotations**

**Finding**

Based on our purchases testing, we noted approximately 6% of purchase transactions we sampled did not have a sufficient numbers of supplier quotes as required under the Shire’s purchasing policy or there was no documentation to explain why other quotes were not sought. The issue remains unresolved from a similar 2019 finding.

**Rating: Moderate**

**Implication**

This is a non-compliance with the Shire’s purchasing policy. It also increases the risk that its purchases may not achieve the best value for money outcomes.

**Recommendation**

We recommend that all authorised officers comply with the purchasing policy in regards to supplier quotations or document reasons why quotes were not obtained.

Management should also investigate the above exceptions identified during our testing.

**Management Comment**

Management are conducting on-going training with both creditor and purchasing staff to ensure that the policy is followed and where the policy could not be met the reason why is documented with other purchasing documents. The policy will be reviewed to ensure the thresholds and relevant quotations required is appropriate.

**Responsible Person:** All officers with delegated authority to make purchases

**Completion Date:** Ongoing

**2. Employment Letters**

**Finding**

Based on our payroll testing, we noted three instances where the casual employee files did not include appointment letters which confirms the employees award level and/or pay rates.

**Rating: Minor**

**Implication**

The absence of appointment letters may make it difficult to resolve any potential disputes with employees.

**Recommendation**

We recommend management ensure the signed appointment letters are documented in employee files for all applicable personnel.

**Management Comment**

Managers have now been made aware that employee appointment letters are required for even the most casual staff employed for short term labour. It is not expected that this will be an issue in the future.

**Responsible Person:** Chief Executive Officer

**Completion Date:** 1 July 2020

### **3. Purchase Orders**

#### **Finding**

Based on our purchases testing, we noted one instance where the Purchase Order (PO) authorised by the personnel exceeded the PO amount limit in accordance with the delegation register. We noted that asset purchases which includes trade-in's, the net purchase price was determined as the threshold.

**Rating: Minor**

#### **Implication**

Authorisation of orders exceeding the delegation limits may result in staff ordering larger amounts without any approval, or inappropriate purchases being made.

#### **Recommendation**

We recommend authorised officers be reminded of the need to ensure purchase orders are raised in accordance with the delegation register limits and gross purchase price should be the threshold for asset purchases with trade-in's. This will ensure goods and services are appropriately ordered with sufficient approval limits.

Management should also investigate the above exception identified during our testing.

#### **Management Comment**

This particular instance was an outlier where the manager was trading a vehicle which was within it's budgeted allocation. The net purchase price was within the limits of his purchasing delegation however the purchase price of the new vehicle exceeded the delegation. The purchasing officer is now aware of the limitations and it is not expected that this issue will occur again.

**Responsible Person:** Chief Executive Officer

**Completion Date:** 1 July 2020

### **The Audit and Risk Committee**

- Nominally meet in June (risk Report) November (Auditor phone hook-up) and March (Budget Review).

The Shire of Kulin is addressing its strategic aim of being compliant and operating within the law whilst minimising exposure to risk. The ongoing actions taken by Staff and CEO in recent years has solidified processes to ensure there will be ongoing improvement in terms of focus on compliance.

It is evident that monthly reporting has developed more of a compliance focus. Audit and Risk Committee meetings scaled back to 3 meetings per year, June and December, with the face to face or phone contact meeting with the Auditor timed to coincide with receipt of the Audit report and management letter (between mid Sept – November).

### **COMMUNITY CONSULTATION:**

Nil

### **WORKFORCE IMPLICATIONS:**

### **OFFICER'S RECOMMENDATION:**

That the Audit and Risk Committee recommend to Council that:-

1. Council adopt of the Shire of Kulin's Risk Management Report June 2021 (and attachment) as required by Audit Regulation 17 incorporating the Risk Register;
2. Acknowledge that this report and the monthly compliance reporting processes developed by staff satisfies the intent of Audit Regulation 17 whereby the CEO is required to report on risk management, internal controls and legislative compliance;
3. Adopt the recommendation and actions contained in the Shire of Kulin's Risk Register Report June 2021 and where appropriate remove completed risk items;
4. Risk Register recommended actions be incorporated into the monthly Compliance Register for follow-up.

### **VOTING REQUIREMENTS:**

Simple majority required.

Attachment 1 - Shire of Kulin's Risk Management Report June 2021

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Shire of Kulin - Full Risk Register

8-Jun-21

Risk Code	Primary Category / Sub Category	Secondary Categories	Risk Type	Risk Issue	RISK IDENTIFICATION			EVALUATION			Initial			Revised			Future			Solutions												
					Causes	Existing Controls		Initial	Revised	Future	Consequence	Likelihood	Risk Rating Score	Risk Rating	Consequence	Likelihood	Risk Rating Score	Risk Rating	Consequence	Likelihood	Risk Rating Score	Risk Rating	Risk Action Title	Resource Requirements	Responsible Officer	Baseline End Date	Revised End Date	Percentage Complete	Progress Comments	Completed Date		
						Initial	Revised																									
OR-029	Capacity to Deliver Services		Operational	Council loses recurrent Grant funding to provide existing service	Changes to State and Federal funding policies	Council staff identify grant opportunities and apply for grants decision to proceed with grant actions taken subsequent to receipt of approval, funds or contract agreements	Council staff identify grant obligations in terms of reporting, audit and response deadlines, prepare for refunds if grants not proceeding.	Maximisation attitudes of applying for every grant now shifted to applying for targeted planned projects only where Council/community contribution is available	Council fails to recognise the impact of changes in a timely manner and adjust Budgets and plans to incorporate changes	Ongoing attitudes towards grants	2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Council has a clear process to review services where grant funding has ceased to ensure it understands the financial impact on its	Administration resources - accounting staff	CEO	30/06/2015	#####	100%	No risk issue but requires ongoing monitoring.	31/05/2019
SR-001	Human Safety and Well - Being		Strategic	Failure to protect staff or third parties from injury - operational targets toward Occupational Safety Plans functioning in the workplace.	No active Occ. Health Safety Committee - functions intermittently	Procedures and insurance in place. Committee function reactivated	Comprehensive OHS procedures, policies, training and communication. Proactive operational inspections. Appointment of an off-site consultant to provide OHS	No active attention to Occ. Health Safety issues	Committee to be established/reviewed to address ongoing Occ. Health and Safety issues.	Consultant provides ongoing support and services.	5.00	2.80	14.00	Low	5.00	1.00	1.50	7.50	Low	3.20	1.00	1.50	4.80	Low	Ensure an OSH Risk Management Plan is in place in line with the Risk Management Policy and Procedure Manual.	Administration resources	CEO	30/06/2016	#####	100%	OHS consultant engaged.	31/05/2019
SR-006	Capacity to Deliver Services		Strategic	Inability to fund the maintenance replacement and renewal of infrastructure assets	Long Term Financial Plan linked to current Asset Management Plan.	Updated Long Term Financial Plan linked to Asset Management Plan.	Long Term Financial Plan linked to updated Asset Management Plan 2020.	Asset Management Plan and Long Term Financial Plan to be regularly reviewed as required by legislation to ensure assets will be renewed and maintained to a suitable level.			5.00	1.50	7.50	Low	5.00	1.00	1.50	7.50	Low	3.20	1.00	1.50	4.80	Low	LTFP informed by Asset Management Plans for infrastructure assets	Administration resources - accounting staff	CEO/DCEO	30/06/2015	#####	100%	Updated Asset Management Plan and LTFP endorsed by Council October 2020	8/06/2021
SR-009	Shire Reputation and Governance		Strategic	Failure to provide expected levels of service, events and benefit to the community	Appropriate levels of funding allocated in annual budget	Integrated planning framework, community satisfaction survey and complaints register in place		Tolerate the risk	Appropriate levels of funding allocated in annual budget		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Ensure reporting mechanism in place to capture community feedback on expected levels of service	Administration resources - accounting staff	CEO/DCEO	30/06/2015	#####	100%	IPR Major Review being undertaken in 2021 with community engagement processes.	8/06/2021
OR-001	Financial and Legal		Operational	Budgets do not reflect strategic objectives	Long Term Financial Plan linked to Community Strategic Plan	Review by management of actual performance against budget in relation to initiatives/objectives of Community Strategic Plan, Corporate Business Plan and Strategic Action Plans.		Treat the risk	Major review of relevant IPR documents being undertaken 2021 to link - SCP, CBP, LTFP and AMP for inclusion with Annual Budgets.		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Ensure process in place to establish links and relationship between budgets and Integrated Plans.	Administration resources - accounting staff	CEO/DCEO	30/06/2015	#####	50%	IPR Major Review being undertaken in 2021 with community engagement processes.	8/06/2021
SR-005	Shire Reputation and Governance		Strategic	Customer processes and standards applied to all customer contact points in the Shire	Process and procedures in place	Process and standards in place.		Treat the risk	Ongoing customer service training for new and existing staff to ensure standards do not decrease - feedback from customers to levels of service provided		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Customer service procedures current to ensure consistency across the organisation and adherence to the Customer Service Charter	Administration resources	All staff	30/06/2015	8/06/2021	100%	Ongoing Customer Service training undertaken for staff changeovers. APOG to be reviewed at annually.	8/06/2021
SR-014	Human Safety and Well - Being		Strategic	Non-compliance with Occupation Health & Safety (OHS) Regulations and physical security requirements	OHS Policy exists	Workplace inspections, hazard register and staff induction process in place	Refining OHS Policy required	Treat the risk	OHS Audit to be undertaken regularly in conjunction with OHS consultant and UGS with proposed outcomes to be addressed.		5.00	2.80	14.00	Low	5.00	1.00	1.50	7.50	Low	3.20	1.00	1.50	4.80	Low	Develop an HR Framework. This should include an OSH Risk Management Plan in line with the requirements of the Risk Management Policy and Procedure Manual.	Administration resources	CEO	30/06/2015	Ongoing	100%	OHS Audit to be regularly scheduled (latest June 2019) with recommendations to be addressed as part of OHS processes.	8/06/2021
OR-003	Financial and Legal		Operational	Unrealistic Budgets Adopted	Budget linked to Community Strategic Plan	Current Budget prepared within the Kulin Integrated Planning Framework	Considerable linkage to Community Plan, Corporate Plan and LTFP reviewed annually	Tolerate the risk	Minimal risk of Council adopting widely variant Plan without community response - assumptions in plan revised annually		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Ensure annual budget is prepared in accordance with the Kulin Integrated Planning Framework	Administration resources - accounting staff	DCEO	30/06/2015	8/06/2021	100%	IPR Major Review being undertaken in 2021 with community engagement processes.	8/06/2021
OR-004	Financial and Legal		Operational	Budgets are inaccurately reported with differences in the Budget adopted by Council, and that exercised by Council administration.	Monthly financial reports presented to Council with CEO/DCEO both reporting on performance.	Original Budget and any approved changes are compared to the Budget entered into the financial system for accuracy by appropriate level of management with identified variances investigated.	Monthly financial reports presented to Council assessed for accuracy by accounting staff and CEO	Tolerate the risk	Ongoing - Monthly financial reports presented to Council assessed for accuracy by accounting staff and CEO		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Appropriate level of management or an independent person investigates financial system for accuracy of budgets in financial system and changes adopted by Council.	Administration resources - accounting staff	CEO/DCEO	30/06/2015	Ongoing	100%	Budget Review indicates Budget in excellent shape. Ongoing monthly checks in place. Variances reported to Council monthly. Financial Management Review undertaken June 2021.	8/06/2021
OR-018	Financial and Legal		Operational	Investment transactions are either not recorded or are recorded inaccurately.	Investment balances reported to Council monthly. Delegation to all investments or change investments recorded in Delegation report to Council monthly.	Actual investment income compared to budget on a regular basis, variances are investigated.	Management regularly reports on actual performance against budget to Council.	Tolerate the risk	Ongoing - Management regularly reports on actual performance against budget to Council		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Investment transactions are reconciled / compared to third-party statements documents and discrepancies are investigated	Administration resources - accounting staff	DCEO	30/06/2015	Ongoing	100%	Monthly delegation exercised is reported to Council, indicating action taken with investments. Transfers to Reserves a Council decision June each year. Audit Committee views balances and reconciliations. Ongoing	8/06/2021
OR-020	Financial and Legal		Operational	Inventory received is either recorded inaccurately or not recorded at all.	Supplier statements are reconciled to goods receipt records and invoices regularly.	Training and development of staff managing this function		Tolerate the risk	Ongoing - Management regularly reports on actual performance against budget to Council		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Monthly stock-takes of inventory are completed and reconciled to the	Administration resources - accounting staff	DCEO	30/06/2015	Ongoing	100%	Ongoing monitoring	8/06/2021
SR-002	Capacity to Deliver Services		Strategic	Change of government policy negatively affecting service provision or planned capital funding.	Current Long Term Financial Plan linked to levels of funding as per current policy	Long Term financial Plan based on current levels of service and funding	Current Long Term Financial Plan linked to levels of funding as per current policy	Treat the risk	Long Term financial Plan based on current levels of service and funding, as well as Asset Management Plan and updated regularly as part of IPR process.		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Ensure Corporate Plan and LTFP when reviewed consider the impact of government grants and contributions on service delivery and infrastructure renewal	Administration resources	CEO	30/06/2015	Ongoing	100%	Grants when sought form part of project and budget balances. No grants sought unless required. LTFP based on known income. Remove	8/06/2021
OR-017	Financial and Legal		Operational	Council makes poor investment decisions	LTFP, Budget and Compliance requirements minimise risk of poor decisions	Management monitor cash & anticipated future cash flows. Surplus funds invested in accordance with Council policy. Investment & transfer of funds approved by officers in accordance with Council policy.	Budget creation, budget review and monthly review of financial statements provides checkpoints for the consideration of fund transfers and cashflow	Treat the risk	Ongoing - Budget creation, budget review and monthly review of financial statements provides checkpoints for the consideration of fund transfers and cashflow		2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Council has a clear and comprehensive investment policy to assist when making any decisions to	Administration resources	CEO	30/06/2015	Ongoing	100%	Stable staff at present minimises risk - CEO review of applicable policies being undertaken	8/06/2021
OR-027	Shire Reputation and Governance		Operational	Lack of working capital to meet Council's financial commitments	Council maintains healthy by/fwd balances - minimises use of Reserve funds and transfers required funds into Reserves annually	Details of cash requirements, particularly with capital works, are documented and discussed by authorised officers. Investments and borrowings are reported to Council monthly.	LTFP accommodates healthy balances to meet cashflow requirements in first 2 months of financial year before rates occur.	Established dates for rate discount limit earlier cashflow but is manageable.	LTFP accommodates healthy balances to meet cashflow requirements in first 2 months of financial year before rates occur.		3.20	1.50	4.80	Low	3.20	1.00	1.50	4.80	Low	3.20	1.00	1.50	4.80	Low	Management reviews cash position of Council on an ongoing basis, involving comparison to budgets; significant variances investigated by management.	Administration resources	CEO	30/06/2015	Ongoing	100%	Cashflow requirements are monitored monthly and in line with budget. Significant capital projects are planned in accordance with cash reserves and funding availability.	8/06/2021
OR-037	Shire Reputation and Governance		Operational	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process	Detailed Policy requirements WALGA eliminate risk of probity issues and failed processes	Evaluation process exists both during the selection process and throughout the term of the contract to ensure that supplier / contractor meet their objectives.	Management regularly reports balances against stock but weekly checking now demonstrating evidence of what works and is effective.	Action taken now to minimise risk.	Ongoing - Maintenance of minimum standards in relation to compliance and Council policy. Policy review to be completed annually. Regional Purchasing Policy considered.		3.20	1.00	3.20	Low	3.20	1.00	1.00	3.20	Low	3.20	1.00	1.00	3.20	Low	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council. This includes compliance with Code of Ethics.	Administration resources	CEO	30/06/2015	#####	100%	Purchasing policy revised in June 2019 and workshopped with staff, APOG reviewed annually.	8/06/2021
OR-038	Financial and Legal		Operational	Ability to manage external collection of funds in operations. Rates Debtors, Sundry Debtors, Freebairn Recreation Centre, Aquatic Centre, Day Care Caravan Park collection at risk of loss.	High turnover of staff and nature of bar staff employment. Cash high visibility, balancing and stocktakes, big events.	Weekly balancing occurs well after opportunity to ensure correct procedures, mitigation practices and supervision	Nil - CCTV over tills now installed, weekly balancing undertaken with Finance staff. Ensure debt collection policy is adhered to in relation to rates and sundry debtors.	Management regularly reports balances against stock but weekly checking now demonstrating evidence of what works and is effective.	Action taken now to minimise risk.	Ongoing - FRC, Aquatic Centre and Caravan Park collection debts forwarded to Finance weekly. Performance against anticipated collections regularly assessed. Potential against loss now lower. CCTV to be installed in safe room at FRC.	2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Balancing now undertaken with assistance; CCTV over tills; collection now assessed weekly.	Administration resources - accounting staff	DCEO	30/06/2015	Ongoing	100%	Ongoing - not seen as high risk - but potential for loss of funds always possible. Staff arrangements being resolved.	8/06/2021
OR-39	Human Safety and Well - Being		Operational	Failure to provide staff ongoing employment as a result of a global pandemic.	Global pandemic affecting business financially or rendering the work place or travel to work unsafe.	IT systems allow a range of staff work from home if required and maintain minimal staff in the office, whilst outside staff continue working in isolation.	Review IT systems enabling as many staff as possible to work from home, develop a rotation roster within the office. Develop a Pandemic Leave Policy for if situation is that bad that staff can take leave and still be paid.	Management review risk to workforce and regularly communicate with staff and community possibilities of risk and potential measures to be implemented. Regular communication updates to staff. PPE inventory undertaken and orders made.	Action taken now to minimise risk.	Ongoing - continue to monitor global environment, communicate with staff of relevant updates and actions.	2.00	4.00	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Managing staff welfare and ongoing employment in a global pandemic.	Administration resources - accounting staff	CEO	30/06/2020	Ongoing	100%	Ongoing - not seen as high risk - but potential for staff anxiety and uncertainty. Staff arrangements being monitored.	8/06/2021
OR-40	Capacity to Deliver Services		Operational	Failure to deliver sufficient ongoing services as a result of a global pandemic.	Global pandemic affecting business financially or rendering the work place or travel to work unsafe.	IT systems allow a range of staff work from home if required and maintain minimal staff in the office, whilst outside staff continue working in isolation.	Review IT systems enabling as many staff as possible to work from home, develop a rotation roster within the office. Develop procedure for outside staff to continue working to deliver services at a reduced level, determine which services still need	Management review risk to workforce and regularly communicate with staff and community possibilities of risk and potential measures to be implemented. PPE inventory undertaken and orders made.	Action taken now to minimise risk.	Ongoing - continue to monitor global environment, communicate with staff and community of relevant updates and actions.	2.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	2.00	1.00	1.50	3.00	Low	Balancing delivery of services during a global pandemic.	Administration resources - IT services, communication mediums	CEO	30/06/2020	Ongoing	100%	Ongoing - not seen as high risk - but potential for staff and community anxiety and uncertainty. Staff arrangements being monitored.	8/06/2021



**Minutes of an Audit & Risk Committee Meeting of Council held in the Council Chambers on Wednesday 15 April 2020 commencing at 1.06pm**

**1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**

Cr West declared the meeting open at 1.06pm and advised that Councillors Bowey & Varone would be in attendance via online link up through Webex.

**2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE**

Attendance

BD West	President	West Ward
G Robins	Deputy President	Town Ward
R Bowey (online link)	Councillor	Town Ward
L Varone (online link)	Councillor	East Ward
BP Taylor	Councillor	Central Ward
B Smoker	Councillor	West Ward
MS Lucchesi	Councillor	Central Ward
JK Noble	Councillor	Town Ward
RD Duckworth	Councillor	West Ward
G Yandle	Chief Executive Officer	
C Vandenberg	Deputy Chief Executive Officer	
N Thompson	Executive Support Officer / Minutes	
Judd Hobson	Manager of Works	

Apologies

Nil

**3. PUBLIC QUESTION TIME**

**4. APPLICATIONS FOR LEAVE OF ABSENCE**

**5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

5.1 Meeting 1 April 2020

**6. MATTERS REQUIRING DECISION**

6.1 DLGSC Response Regarding 2018-19 Financial Report

**6 ELECTED MEMBERS MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

**7 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING**

**8 INFORMATION BULLETIN ITEMS**

**9 DATE AND TIME OF NEXT MEETING**

**10 CLOSURE OF MEETING**

**5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

5.1 Audit & Risk Committee Meeting 1 April 2020

**A4/0420**

Moved Cr Robins Seconded Cr Smoker that the minutes of the Audit and Risk Committee Meeting held on 1 April 2020 be received.

Carried 9/0

## 6. MATTERS REQUIRING DECISION

### 6.1 DLGSC Response Regarding 2018-19 Financial Report

**RESPONSIBLE OFFICER:** CEO  
**FILE REFERENCE:** 12.05 Audit Return and Review  
**AUTHOR:** CEO  
**STRATEGIC REFERENCE/S:** Corporate Business Plan, Civic Leadership 4.1.1 a; CEO KRA 3.3 Financial Management, 3.5 Integrated Planning  
**DISCLOSURE OF INTEREST:** Nil

**SUMMARY:**

The audit of the 2018/19 Annual Financial Report was finalised by the Office of the Auditor General (OAG) on 30 March 2020. The Annual Report was presented to the audit committee at a special meeting held at 3:00pm Wednesday 1 April 2020. During this meeting a teleconference was held with Kien Neoh (OAG Representative), Leanne Oliver (Byfields Audit Partner) and Vishal Desai (Byfields Audit Manager) The audit opinion described significant adverse trends and matters of non-compliance with the Local Government (Financial Management) Regulations 1996. These matters are discussed in detail below.

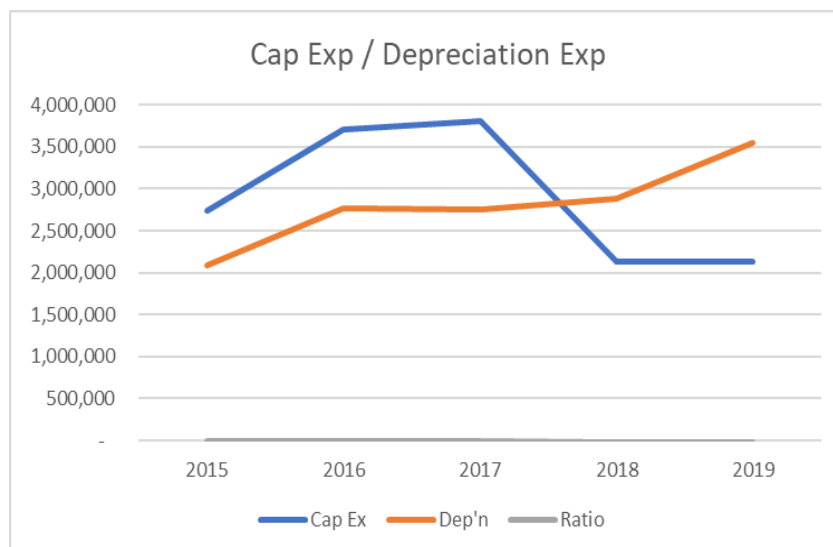
**BACKGROUND & COMMENT:**

Asset Sustainability Ratio

This ratio indicates whether the Shire is renewing or replacing existing nonfinancial assets at the same rate that its overall stock of assets is wearing out. It is calculated by measuring capital expenditure on renewal and replacement of assets relative to the rate of depreciation of assets for the same period. The Department of Local Government, Sport and Cultural Industries (the Department) Standard is met if the ratio can be measured and is 90% (or 0.90). The standard is improving if this ratio is between 90% and 110% (or 0.90 and 1.10).

The following table outlines the Shire of Kulin’s total ‘renewal/replacement’ capital purchases compared to depreciation expense over the last five years. In 2016 and 2017 the Federal Government increased the R2R program funding by double which resulted in the Shire having to spend significantly more on road construction for those years. Regardless of the additional expenditure we would have met the Department’s benchmark of 0.90 in these years. The impact of depreciation in the years following revaluations have negatively impacted this ratio and in particular the increase in depreciation following the infrastructure valuations in 2018.

Year	Cap Ex	Dep'n	Ratio	Comments
2019	2,130,098	3,555,499	0.60	
2018	2,126,798	2,886,530	0.74	Roads revalued, impact on dep'n in subsequent years
2017	3,805,848	2,749,106	1.38	Double allocation of R2R funding
2016	3,708,288	2,766,130	1.34	Double allocation of R2R funding
2015	2,745,520	2,090,512	1.31	Roads revalued, impact on dep'n in subsequent years



The Shire's Asset Consumption Ratio over the last three years has been 0.68, 0.70 and 0.68 compared to the Department's standard ratio of 0.50. The Department's Operational Guideline indicates that 'This ratio seeks to highlight the aged condition of a local government's stock of physical assets.' The Shire's ratio result shows that our physical assets are only 32% consumed and therefore you might consider our group of assets to be in relatively good condition. While we are not replenishing the assets (capital expenditure) which we consume (depreciate) during the year the assets are relatively new and in good condition.

Action:

Depreciation expense is based on accounting estimates and, after an increase in valuation in 2015 of \$16m and in 2018 of \$30m, it may indicate that the depreciation rates being used are too high. If depreciation rates were correct you would not expect that after 3 years (2015 -2018) the road valuation could increase by much more than CPI. The large increase could also indicate anomalies in valuation methodology in either the 2013, 2018 or both valuation processes that require further investigation and interrogation. The Asset Management Plan is in the process of being reviewed and in conjunction with this process we will be revaluing all classes of assets. Valuation methodology related to infrastructure and depreciation rates will be scrutinised to ensure accuracy.

#### Operating Surplus Ratio

In the Local Government Operational Guidelines Number 18 the Department described the Operating Surplus Ratio as a financial performance ratio which is a key indicator of a local government's financial sustainability.

The Operating Surplus Ratio is calculated by:

$$\frac{(\text{Operating Revenue}-\text{Operating Expenditure})}{\text{Own Source Revenue}}$$

A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt. A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Standard:

Basic Standard between 1% and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).

Comment:

The depreciation expense posted each year has a significant impact on our operating result and we consistently post a loss based on this expense. As you can see in the table below we were achieving the standard in 2015 prior to the first round of infrastructure valuations impacting depreciation. In order to achieve the basic standard of this ratio we need a profit result equal to or higher than 10% of our own source revenue. The first challenge will be posting a profit result, the second will be achieving a profit level high enough to achieve the minimum standard.

2017/2018

	2019	2018	2017	2016	2015
Operating Surplus Ratio	(0.41)	(0.46)	(0.13)	(0.39)	0.051

Action:

During 2019/2020 we are reviewing our Asset Management Plan and our Long Term Financial Plan. In addition to this, and in conjunction with the review of our Asset Management Plan, we will be conducting revaluations on each of the levels of assets. We will do some analysis on appropriate depreciation rates to ensure the rates we are currently using are correct and to ensure that our depreciation isn't overstated.

Further to this, we will apply a higher level of scrutiny to our larger outlays of maintenance type work which we expense during the year. From time to time we make improvements to assets through a maintenance program and these expenditures are considered to be operating in nature rather than capital. When these expenditures are a genuine capital expense they will be moved to the balance sheet rather than expensed through the operating statement. While this additional scrutiny (and any consequent change in expense classification) will have a positive impact on our net result, the impact will be minimal with regards to the Shire achieving the basic standard of this ratio.

#### **STATUTORY ENVIRONMENT:**

Nil

#### **POLICY IMPLICATIONS:**

Nil

**FINANCIAL IMPLICATIONS:**

Nil

**COMMUNITY CONSULTATION:**

Nil

**WORKFORCE IMPLICATIONS:**

Nil

**AUDIT & RISK COMMITTEE RECOMMENDATION**

That the Audit & Risk Committee recommend to Council that they accept the report of significant matters as presented in the Auditor's Report for the 2018/2019 Annual Financial Report and authorising the CEO to prepare a letter to the Minister in response to the findings.

**VOTING REQUIREMENTS:**

Simple Majority.

**A5/0420**

Moved Cr Duckworth Seconded Cr Lucchesi that the Audit & Risk Committee recommend to Council that they accept the report of significant matters as presented in the Auditor's Report for the 2018/2019 Annual Financial Report and authorising the CEO to prepare a letter to the Minister in response to the findings.

Carried 9/0

## **CLOSURE OF MEETING**

There being no further business the meeting was closed at 1.12pm